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Trips and Trade

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Trips and Trade*

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Abstract

Politicians travel a lot, for various reasons. The types of trips to foreign countries range, for instance, from a formal, highly-orchestrated, multi-day visit to brief logistical stop-overs, from the regular exchange of information during official talks in a working environment to ceremonial visits. This chapter reviews selected issues in the analysis of the economic effects of foreign travels by politicians. It starts by highlighting possible differences in the effects dependent on the visitor's official position. Next, it is emphasized that only few travels, dependent on their purpose, may be economically relevant. Finally, issues related to the choice of the travel destination are discussed.

Keywords: diplomacy; visit; travel; official; host

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1. Introduction

Historically, personal visits by politicians have always been an important tool of international diplomacy. Statues and paintings, for instance, document the role and importance of imperial visits by emperors; some emperors, from the Roman emperor Hadrian (76-138) to the last German emperor Wilhelm II (1859-1941), have even been nicknamed “travelling emperor” because of their frequent travels.¹ Biographies of statesmen often feature at length their external travels.²

In recent years, however, despite modern communication technology, travel activities by politicians seem to have become even more intense. For the United States, for instance, where documentation on foreign travels by the President and the Secretary of State is extensive and readily available, there has been a gradual, long-term increase in the number of visits abroad.³ As illustrated in Figure 1, the number of countries visited by the US President in a given year has risen from an average of about 7 countries in the 1960s to more than 16 since the year 2000; for the Secretary of State, the expansion in travel activity has been even more dramatic, with an increase in the average number of visited countries from 15 to 65. Moreover, recent visits by former President Obama to Cuba (March 2016) and Hiroshima, Japan (May 2016) have shown that, even in times of frequent travel, visits may still have a historical dimension.

In view of the large and still growing literature that aims to assess the economic benefits of diplomatic activity, it also seems reasonable to examine whether travels by politicians have any measurable economic effects. In Nitsch (2007), I focus on the effects of visits on trade, analyzing a large data set that covers the travel activities of the heads of state of France, Germany and the United States over the period from 1948 to 2003. Applying a gravity model of trade to control for standard determinants of trade (such as the economic size of the trading partners and the geographic distance between them), I find that state and official visits are indeed positively correlated with exports. Specifically, the point estimates suggest that a visit is typically associated with higher exports by about 8 to 10 percent, with the results being sensitive to the type of visit (as they should be), and also being much less robust for imports. Fuchs and Klann (2013) offer a completely different perspective. Instead of emphasizing the trade-promoting effects of travels, they examine an example of retaliatory action against hosting a visitor, analyzing the trade response of China to foreign visits by the leader of the Tibetan community, the Dalai Lama. In Nitsch (2018), I analyze the trade effects of travels of another religious leader, the Pope, to identify the effects of religious ties on trade. A brief overview of published papers that examine the trade effects of foreign travels by politicians and government officials is provided in Table 1.

In this chapter, instead of summarizing the literature on travels and trade in detail, I discuss selected issues which I consider to be relevant when quantifying empirically the effects of foreign visits by politicians. I begin by highlighting the role of a government official’s position; different levels of

¹ Kleiner (1992) notes, for instance, that “[t]here are more surviving portraits of Hadrian than of any other emperor besides Augustus. This was owing to two factors: because Hadrian was emperor for twenty-one years and because statues of him were erected in cities throughout the empire in anticipation of or in appreciation of his visits”; see also Højte (2000).

² See, for example, Taylor’s (1955) celebrated biography of the first German Chancellor, Otto von Bismarck.

³ The information is available online at <https://history.state.gov/departmenthistory/travels/president> and <https://history.state.gov/departmenthistory/travels/secretary>.

diplomacy may have different effects. Next, I review the various purposes and motivations for foreign travels; some travels by politicians include large business delegations, while others are unofficial visits abroad. Finally, I discuss the problem that travel destinations may not have been chosen randomly; when it comes to foreign countries, traders and politicians may simply have similar priorities. A brief summary concludes the chapter.

2. Who?

For the diplomatic protocol, hierarchical order is an issue of major relevance. Important features of a foreign visit, from the list of people who are met to the seating order around the table, are often determined by the rank and position of the visitor. Therefore, for the analysis of the economic consequences of visits by government officials, it is essential to differentiate between government positions and to first define the position of interest.

A useful starting point in this respect seems to be the analysis of travels by a country's highest ranking public official, the head of state. At this diplomatic top level, various trade-promotion activities can be identified directly, including negotiations between large business delegations and the signing of bilateral treaties. Also, a broad range of issues is typically discussed such that the visits often take longer than the brief working visits by lower-level officials who often just meet their foreign counterpart.

Across countries, however, the role and functions of the head of state differ enormously, potentially affecting the results. In fact, this issue is of particular relevance for countries in which the head of state has only symbolic powers and is mainly occupied with ceremonial duties. In Nitsch (2007), I deal with this issue by focusing exclusively on a country's top-level position with executive power, therefore analyzing travels of the German *Bundeskanzler* (the head of government) instead of the *Bundespräsident* (the head of state).

However, it may also be useful to examine potential differences in the effects of travels in greater detail. This analysis seems to be particularly interesting for monarchies. To the extent the results indicate that a country's bilateral relations (including cross-border trade) indeed benefit from foreign travels by monarchs, this may be an argument in favor of potentially balancing the costs of this form of government.

Another potential issue in the identification of the effects of travels is that many government officials often visit the same destinations at about the same time. For instance, for bilateral relations, travels by ministers (especially, a country's foreign minister and the economics minister) may be notable and important.⁴ Also, travels by parliamentarians have become increasingly relevant.⁵ In view of this large overlap in travel activity, it seems difficult to isolate the effects of individual travels.

⁴ Of the 613 country-year pairs reported for travels of the United States President over the period from 1945 to 2015, 446 country-year pairs are also reported for the US Secretary of State such that the minister visited the same country in the same year.

⁵ For the members of the German parliament, *Deutscher Bundestag*, 642 foreign travels are listed in 2012; see *Deutscher Bundestag* (2013). In the introduction to the report, the importance of such travels is emphasized by noting (p. 2, own translation): "In talks with parliamentary colleagues from

3. Why?

A major challenge for the analysis of the effects of a government official's foreign travels is to ascertain the purpose of the travel. The reasons for travel by politicians vary enormously, and not all trips are likely to have an economic impact. A reasonable starting point for the analysis may be an exclusive focus on state visits, the highest form of diplomatic contact; these trips are also often easily identifiable from public sources. Still, such occasions are generally rare events. For instance, the British Queen usually hosts only two incoming state visits each year.⁶ As a result, this approach may ignore, by definition, a sizable fraction (in fact, the overwhelming majority) of a politician's travel activities.

Another reasonable identification method is to classify visits according to specific features of foreign visits which are widely assumed to potentially promote bilateral trade. These features include, for instance, the holding of official talks. If this condition is applied, foreign visits for ceremonial events (such as attending inaugural celebrations, anniversary ceremonies, sport events or state funerals), for addressing a country's military personnel abroad, for recreational purposes, or for logistical stop-overs are all dropped from the analysis.

An additional restriction may be to require the talks to be of a bilateral nature. As a result, visits to international organizations (such as the United Nations General Assembly) and multilateral summit meetings (such as the Commonwealth Heads of Government Meeting), at which there is typically only very limited exchange and interaction with the host country, are excluded. In fact, the global growth in institutional integration (with the formation and gradual deepening of economic integration agreements, the establishment of international fora and the expansion of intergovernmental coordination structures) has been accompanied by a strong increase in travel activities of politicians and government officials. For instance, in 2008, the main travel destination of members of the German parliament was Belgium, accounting for about 40 percent of all individual single-country trips by members.⁷

Finally, it seems reasonable to highlight the official character of the visit. Often, meetings are described as working visits, especially when the main purpose of the visit is to hold talks and there is uncertainty about the final results. Also, working visits can be extremely short. In contrast, official and state visits are typically multi-day events with large ceremonial effort. Politically, they often mark

other countries, with government representatives, with business people, with representatives of the civil society or cultural institutions, they discuss current and sometimes controversial issues in the world of today [...] In addition, they maintain and develop relationships with countries which are often not in the focus of talks at governmental level. The international activities of the members of the German parliament promote cooperation and exchange in many areas of national departmental policy."

⁶ On the website of the British royal family, it is noted that "[t]he Queen undertakes two or three formal visits to Heads of State in other countries, and also usually twice a year hosts incoming Heads of State in one of her own residences"; see <https://www.royal.uk/state-visits-2>.

⁷ See Deutscher Bundestag (2009). In 2008, 232 of 578 trips by member of the *Bundestag* were directed to Belgium. There is no data available for later years since travels to European Union institutions in Brussels, Strasbourg and Luxembourg were no longer recorded by the administration of the *Bundestag* as a travel permit for these trips was no longer required.

the beginning of a new episode of enhanced bilateral cooperation; indeed, future activities often refer to these events as the initiating factor. Economically, direct trade-promoting features can be identified. At such occasions, for instance, the head of state is often accompanied by a large delegation of government officials, business managers, and other representatives, projects are completed or new contracts are signed.

4. Where?

The key difficulty for the proper identification of the economic effects of external travels of public officials is to control for possible endogeneity in their choice of travel destinations and the timing of their travels. When visits are not arranged at random but decisions are affected by, for instance, current or expected future economic relationships, standard ordinary least squares regressions will produce biased results, improperly attributing too large an effect to visits in the event that some third factor (such as the implementation of economic reforms in a country) is driving both travel activity and trade.⁸ As a result, considerable efforts have been made to establish causality.

The most prominent approach to dealing with endogeneity concerns in the identification of the effects of foreign travels on trade is to apply instrumental variables (IV) estimation. The main challenge, however, is to find a good instrumental variable. This variable should be exogenous with respect to trade (exclusion restriction), yet highly correlated with travel activity. Moreover, since visits to foreign countries are a time-variant variable (and timing is a particularly relevant issue in the analysis), it is important that the instrument also takes account of the panel structure of the underlying data.

In view of these demanding constraints, various instruments have been applied in the literature. Nitsch (2007), for instance, uses the (log of the) total number of visiting tourists that a country has received in a given year as an instrumental variable to predict official visits by foreign heads of state. In particular, he argues that travel decisions by politicians may also be affected by the preferences of tourists, but that a country's general attractiveness for tourists is unrelated to pair-wise trade.⁹ Zachary, Hansen, and Nitsch (2016), in contrast, focus particularly strongly on the identification strategy and argue that the natural death of former state leaders is an appropriate instrument for visits by foreign heads of state. To substantiate this claim, the abstract of their paper notes that "deaths of former state leaders should not be affected by anything related to international trade, nor should they themselves affect trade directly; however, they do affect visits, since other state leaders are often invited to attend the funerals".¹⁰ Fuchs and Klann (2013) instrument for meetings of foreign officials with the Dalai Lama at the highest political level using travels of the Dalai Lama to the

⁸ Former US President Obama's visit of Cuba in March 2016 followed a series of actions, initiated with an announcement to re-establish diplomatic relationship on December 17, 2014, that aimed at easing the strict travel and trade restrictions ("el bloqueo") which had been in existence since the early 1960s; see <https://www.whitehouse.gov/issues/foreign-policy/cuba> for a documentation.

⁹ Analyzing the presence of diplomatic missions in a country, Rose (2007) uses, in a cross-country setting, variables of a country's geo-political importance and its attractiveness for tourists as instruments.

¹⁰ Zachary, Hansen, and Nitsch (2016) also highlight the fact that funerals for current and former state leaders have become institutionalized occasions for the conduct of diplomatic business; see also Berridge (1993).

respective partner country, the number of days that the Dalai Lama spent in a country and the number of Tibet Support Groups in a country.

5. Conclusion

Diplomatic activities are costly; they involve, among others, money, time and effort. As a result, and also due to a gradual shift of focus in diplomacy towards economic issues, a growing literature aims to quantify the economic benefits of such activities.

In this chapter, I review selected issues in the analysis of the economic effects of one specific aspect of diplomacy, foreign travels by public officials. Personal visits by politicians, in particular a country's head of state, have always been an important instrument of diplomacy. Moreover, despite technological advances (allowing for easy communication that is almost close to face-to-face interaction), travel activities have increased over the last few decades. In times of frequent travels, however, it is increasingly difficult to isolate the effects of individual visits. Having a proper identification strategy – of which some key elements have been discussed in this chapter – is therefore of growing importance. Failure to take these issues into account runs the risk of obtaining biased estimation results which may then lead to misguided policy conclusions.

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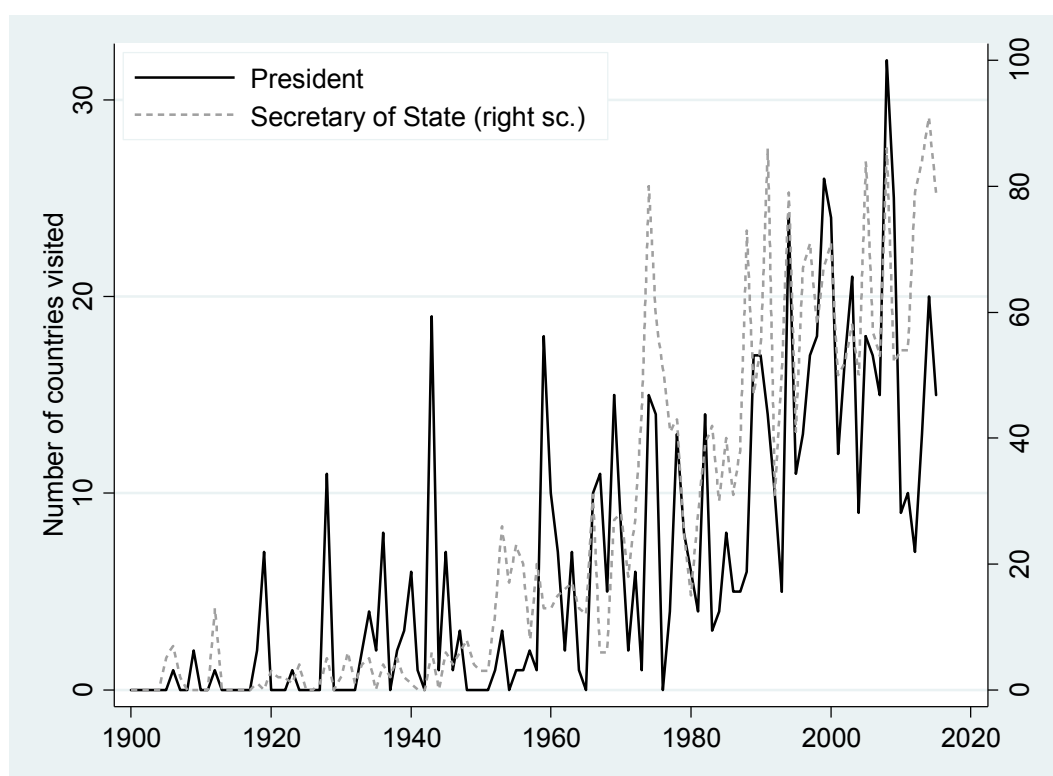
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Figure 1: Travels Abroad of United States Representatives



Note: The number of countries visited in a given year includes multiple visits of a country.

Source: US Department of State, Office of the Historian.

Table 1: Published Estimates of the Effects of Travels on Trade

Study	Country	Government official	Type of travel	Period	Finding
Nitsch (2007)	France, Germany, United States	Head of state	State visits	1948-2003	Visits are associated with an 8-10% increase in exports
Head and Ries (2010)	Canada	Prime minister, minister of international trade	Trade missions	1993-2003	Trade missions are directed towards relevant markets, but do not cause an increase in trade
Creusen and Lejour (2013)	Netherlands		Trade missions	2002-2006	Trade missions increase the probability to enter a new market by 0.1%-point
Cassey (2016)	United States	State governors	Trade missions	1997-2006	Travel destinations are chosen by a markets' relative importance for state exports

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